

Wiley Finance Series

A nighttime photograph of a sprawling cityscape, likely Riyadh, Saudi Arabia, with numerous illuminated buildings and a prominent bridge or highway structure in the foreground.

Business and Entrepreneurship in Saudi Arabia

*Opportunities for Partnering and
Investing in Emerging Businesses*

EDWARD BURTON

WILEY

Business and Entrepreneurship in Saudi Arabia

The Wiley Finance series contains books written specifically for finance and investment professionals as well as sophisticated individual investors and their financial advisors. Book topics range from portfolio management to e-commerce, risk management, financial engineering, valuation and financial instrument analysis, as well as much more. For a list of available titles, visit our website at www.WileyFinance.com.

Founded in 1807, John Wiley & Sons is the oldest independent publishing company in the United States. With offices in North America, Europe, Australia, and Asia, Wiley is globally committed to developing and marketing print and electronic products and services for our customers' professional and personal knowledge and understanding.

Business and Entrepreneurship in Saudi Arabia

*Opportunities for Partnering and
Investing in Emerging Businesses*

EDWARD BURTON

WILEY

Copyright © 2016 by Edward Burton. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 646-8600, or on the Web at www.copyright.com. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor author shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Cataloging-in-Publication Data is available:

ISBN 9781118943960 (Hardcover)

ISBN 9781119296188 (ePDF)

ISBN 9781119296171 (ePub)

Cover Design: Wiley

Cover Images: (top) © Kingdom of Saudi Arabia, Royal Commission for Jubail & Yanbu; (bottom) © Saudi Desert Photos by TARIQ-M/ Getty Images, Inc.

Printed in the United States of America.

10 9 8 7 6 5 4 3 2 1

To my mother and father

Contents

Preface	ix
Acknowledgments	xxi
About the Author	xxii
Introduction	xxiii
CHAPTER 1	
The Kingdom's Modern Economy and Economic Might	1
The Modern Saudi Economy and the National Development Plans	1
The Private Sector's Role in National Development and Non-Oil GDP	8
So, How Has It All Worked Out?	9
The Kingdom's Path to Economic Diversification	17
Notes	29
CHAPTER 2	
Innovation in Saudi Arabia: The Kingdom's March Toward the Future	33
Evaluating Innovation in Saudi Arabia: The Global Innovation Index and the Importance of International Market Engagement	33
Innovation versus Invention	40
Technological and Scientific Discovery in Saudi Arabia	42
King Abdulaziz City for Science and Technology (KACST)	45
King Abdullah University for Science and Technology (KAUST)	56
Industrial Clusters Program (IC), SABIC, and Saudi Intellectual Property	62
Notes	67
CHAPTER 3	
The Development of Family-Owned Businesses in Saudi Arabia	69
Defining the Family-Owned Business (FOB)	69
The Corporate versus Social Nature of the Saudi Family-Owned Business	74
Corporate Succession within Saudi Family-Owned Business and New Generation Integration	81

Management of Strategic Focus and the Importance of Corporate Governance	90
Illustrations of Saudi Family-Owned Businesses	98
Notes	116
CHAPTER 4	
Entrepreneurship in Saudi Arabia Today	120
Defining "Entrepreneur" in Saudi Arabia	120
Saudi Entrepreneurs—The Decision to Go into Business	130
Mr. Saud Al-Suhaimi, CEO of Jawlah Tours	136
Mr. Abdulrahman Al-Olayan, Businessman, Lecturer, Doctoral Candidate	142
Bankruptcy in Saudi Arabia	150
Notes	157
CHAPTER 5	
Exploring Saudi Entrepreneurism and Opportunities for Business	162
Entrepreneurship as a Catalyst for Economic Growth—Saudi Realities	162
Promotion and Support of Saudi Entrepreneurs and Small and Medium-Sized Businesses	168
Endeavor Global Incorporated (Endeavor) and Endeavor Saudi Arabia	169
The National Entrepreneurship Institute (RIYADAH)	178
The Centennial Fund (TCF)	186
Saudi Technology Development and Investment Company (TAQNIA)	192
Notes	198
CHAPTER 6	
New Horizons for the Kingdom and for Its Domestic and Foreign Businesses	201
A New Era in U.S.–Saudi Commercial Relations	201
Saudi and American Goodwill and Right Intentions— A High-Level Discussion on U.S.–Saudi Bilateral Commercial Relationships	206
New Fiscal Realities and Recurrent Development Themes	211
Closing Thoughts	218
Notes	220
Index	223

Preface

This book is about business in the Kingdom of Saudi Arabia and how change occurring within the Kingdom is transforming how business is done. It is about Saudi Arabia's business community and the importance and relevance the Kingdom's economy and its industrial and commercial centers have to global business. But, more importantly, it is about the people, companies, and business environment that make doing business in Saudi Arabia such a unique and rewarding experience.

I have spent most of my professional career assisting American enterprise in the trade of their goods and services, and placement of their capital investments in markets around the world. During the course of this vocation, I have gained knowledge in the art and science of evaluating foreign markets for business and learned what to look for when identifying countries representing the best prospects for gaining and growing market share for American businesses. I have found no market more thought-provoking nor engaging than the Kingdom of Saudi Arabia.

There have been numerous books written about Saudi Arabia over the past 25 years. However, a cursory review of those works show their subject matter primarily centers on oil, internal, regional and international politics, the Kingdom's economy, or its social questions of the day. To be sure, studies of these topics are valuable to a rounded understanding of Saudi Arabia. But the dearth of books dedicated to the subject of commercial affairs inside the Kingdom has assumed a deafening quality given Saudi Arabia's importance to the world. And, there are reasons for the absence of credible literature on the subject.

Culturally, Saudi Arabia has often been labeled a closed society. Many who approach the market for business comment on the insular nature of the Kingdom's culture, which in turn casts upon it a facade of inscrutability and impenetrability. For those electing not to spend the time to get to know the country and its people, an inevitable feeling of enduring challenge characterizes doing business there. However, with modest and sincere effort, the Kingdom's enormous market opportunities and an enriched experience with its businesses eagerly await those who wish them. It is for this reason, and my enduring respect and admiration for the Saudi business community I have written this book.

I lived and worked in Saudi Arabia for three years. Considering there are American "long-termer" expatriate workers with more than 30 years in the Kingdom, I am always on guard against exaggerating my familiarity with the Kingdom. However, I believe that for one to have some sense of the Kingdom's vitality, exceptionality, and promise, one must spend significant sustained periods within its borders. I gained my

sense of the Kingdom through those three years serving as commercial attaché in the American embassy in Riyadh as well as almost 10 years now as president and CEO of the U.S.-Saudi Arabian Business Council. Through these unique and valued professional appointments, I have been fortunate to have gained the trust, confidence, and support of some of the Kingdom's most respected and esteemed business people. Owners and senior management of small, medium-sized, and large Saudi companies have enthusiastically supported bringing this book to market because their story is not being told. It has only been through the privileged access afforded me over the years that this book and its glimpse into the Kingdom's private world of business were made possible.

The chapters of this book are summarized as follows:

A current view of Saudi Arabia's economic strength and rapidly expanding industrial complex is given in Chapter 1. The period between 1938 and 1970, from the discovery of oil to the nation's first formal economic development effort and onset of industrial expansion, is given significance since this is when many of the Kingdom's well-known businesses were established. The chapter examines the Kingdom's national economic development plans, especially the first and most recent ones, and looks at historical efforts by the Saudi government to integrate the Kingdom's business sector into serving the nation's development goals. The chapter examines the question whether adequate coordination between and among the public and private sectors has attended implementation of these plans. Two of the most important topics of influencing economic development, Saudi Arabia's pursuit and achievement of membership in the World Trade Organization (WTO) and its relentless drive toward economic diversification from an oil-based economy is covered in this chapter. This assessment includes a special focus on how the business community has met the challenges of increased foreign competition and more demanding regulatory environment since the Kingdom's accession to WTO membership in December 2005.

Chapter 2 scrutinizes Saudi Arabia's rush to innovation and the creation of a knowledge-based economy, as well articulated in its ninth national development plan. A discussion of the Saudi national science, technology, and innovation plan, promulgated by King Abdulaziz City for Science and Technology (KACST) in furtherance of its charter, is presented and its impact assessed. The chapter appraises the Kingdom's efforts to construct a permanent milieu for the nation's growing cadre of researchers, developers, and innovators. The chapter offers a general survey of major research and development projects underway in Saudi Arabia and offers examples of cutting edge studies in the applied industrial sciences. Work being done in this area by world-renowned institutions such as King Abdullah University for Science and Technology (KAUST) and its industry collaboration program (KICP), King Saud University (KSU) and its Riyadh Techno Valley, and KACST, particularly its Nanotechnology Centre of Excellence and BADIR program are highlighted. The chapter looks at the state of patent applications in the Kingdom and highlights the important work being done by the nation's patent authorities, the Saudi Patent Office (SPO), and the National Patent Office (NPO). Given that the operational condition, efficacy, and performance of a country's patent registration system is often a useful barometer

on the health of innovation among its brightest people, useful figures are presented as to the demographics on the origin of patentable innovations within Saudi Arabia.

Chapter 3 assesses the enduring legacy of Saudi Arabia's family-owned businesses (FOBs). The chapter affords the reader a rare and brief look inside several of the Kingdom's best known and respected family establishments and appraises the historical significance of these businesses. Observing their humble beginnings in business, in some cases being the nation's first start-ups through vendor and supplier contracts with the precursor to Saudi Aramco back in the 1940s, 1950s, and 1960s, Chapter 3 delves into the role they continue to play in the Kingdom's commercial and industrial development. This chapter examines the transformation of these businesses into globally diversified commercial entities. We look at the challenges faced by these companies as they transition their corporate leadership from first to second generation, and from second to third generation as younger family members are integrated to their businesses. With an average of five children born to Saudi families, when the time comes to pass on control of a family business from a matured founder to a founder's relatives, there are often familial conflicts and thorny legal issues with which to contend, particularly when the death of a founder occurs.

This chapter also examines questions such as: What happens when an older generational leader or group of family leaders of a company, who were the guiding and authoritarian forces behind its growth and success over decades, begin to exit the day-to-day control of the company to make way for younger generational family owners and managers? This chapter devotes a portion of commentary on the corporate governance practices followed by Saudi FOBs and what that means for co-investors with these firms. This chapter presents the views of second- and third-generation Saudi FOB members on what changes in generational leadership means for Saudi FOBs from their perspectives.

Chapter 4 presents entrepreneurship in Saudi Arabia today from the perspectives of those engaged in business. The chapter looks at the definition of "entrepreneur" and what it means to be one in Saudi Arabia today. Examining the early definitions of the term "entrepreneur" from Irish-French economist and himself the quintessential entrepreneur, Richard Cantillon, and the views of Jean-Baptiste Say, the celebrated French economist and businessman who was among the earliest to attempt to define the word 200 years ago, this chapter looks at Saudis who have their own start-ups and established enterprises that have grown with aid from some of the Kingdom's governmental and private-sector-funded support entities and institutional incubators. We look at these business owners and how they chose their own paths to Saudi Arabia's commercial class.

Chapter 5 further explores what it means to be a Saudi entrepreneur facing the challenges and pursuing the rewards that differ greatly from those of the traditional path of one seeking long-term employment within government bureaucracies. This chapter surveys the great push to promote and assist startups and new growth businesses in the Kingdom by government institutions, chambers of commerce, and private enterprise. Instructional and funding programs such as Endeavor, Riyadhah,

the Centennial Fund, and the specialized approach to start-up promotion of TAQNIA will be viewed in Chapter 5.

This chapter further examines the phenomena of Saudi entrepreneurship and turns a discerning eye on understanding the motivational forces behind it. We take a look at what drives the entrepreneur in Saudi Arabia to break the stereotypical sedentary, often perceived apathetic Saudi youth more interested in social diversion than helping to advance the Kingdom's development interests through their own labor, ingenuity, and achievement. Where does the desire for self-achievement come from? Does the desire for Saudis to invent, improve, and apply new technologies or make "the next big thing" spring from the same fervor possessed by Steve Jobs as the phrase "fire in the belly" was reminted for him and other innovators in the high-tech industry? Because many Saudis and non-Saudis question whether young Saudis possess the same drive and passion for success older generations of Saudis undoubtedly exhibited in building their family owned businesses many decades ago, this chapter looks at whether today's Saudi business person has the same fire and passion for personal and commercial achievement. The chapter gives examples of how those engaged in promoting entrepreneurship see evidence of a strong spirit of excellence and a will to create and commercially prosper possessed by aspiring Saudi business people.

Chapter 6 recaps important themes in this book with a particular emphasis on what is on the horizon for business in the Kingdom. A view of the Kingdom's Tenth Development Plan (2015–2019) maps out the next five years of the country's growth plans. Chapter 6 presents the opportunities for business between Saudi and American companies that serve the mutual commercial and economic interests of both countries. The chapter will view some of the recent strategic alliances and partnerships between Saudi businesses and foreign investors that are shaping the competitive business environment in Saudi Arabia today.

At the outset, it is important for the reader to appreciate that I am an American on the outside looking in on Saudi Arabia. I say "on the outside" because I believe unless you are Saudi, it is impossible to have the genuine experience of knowing and appreciating all of the tremendous challenges and tectonic shifts one has to deal with on a daily basis in Saudi Arabia and truly view those changes for what they really mean. So, in my pursuit of authoring a balanced book on business in the Kingdom, I am presenting and filtering the commentary of others that hopefully serve as useful examples of alternative approaches to solving some of the Kingdom's challenges in working with and supporting the Saudi private sector. In the end, however, contextually, these are Western, and in particular, American perspectives. Notwithstanding these perspectives, one can be assured the Saudi-American relationship remains one of the most important sovereign-to-sovereign relationships either nation maintains with the world's nations.

American President Barack Obama has visited the Kingdom of Saudi Arabia in June 2009, in January and March 2015, and then again in April 2016. And since taking their respective offices in the Obama administration, Secretary of State John Kerry and Secretary of Commerce Penny Pritzker have had their own official visits

to Saudi Arabia. These were no routine diplomatic courtesy calls. Most experts, analysts, and followers of U.S.-Saudi relations agree that the Kingdom and the United States have reached a historic crossroad in their 80-year-old relationship. Until January 23, 2015, all prior visits to the Kingdom by President Obama and the emissaries of his cabinet dealt with the late King Abdullah Bin Abdulaziz Al Saud. Upon King Abdullah's death, announced Friday, January 23, 2015, Saudi Arabia was launched into a period of profound and unprecedented transformation.

On January 23, 2015, the Custodian of the Two Holy Mosques, His Majesty King Salman Bin Abdulaziz Al Saud, ascended the throne of the Kingdom of Saudi Arabia. On April 29, 2015, King Salman appointed His Royal Highness Prince Mohammed Bin Naif Bin Abdulaziz Al Saud crown prince and first deputy prime minister. The late King Abdullah had already appointed HRH Prince Mohammad Bin Naif Minister of the Interior on November 5, 2012. And, in a move that caught most Saudi analysts off guard and surprised many, His Majesty King Salman Bin Abdulaziz Al Saud appointed his son, His Royal Highness Prince Mohammed Bin Salman Bin Abdulaziz as deputy crown prince, putting him third in line to the throne after Deputy Crown Prince and Interior Minister Mohammed Bin Naif.

The appointment of His Royal Highness Prince Mohammed Bin Salman, 30 years old, as deputy crown prince, was also accompanied by His Royal Highness's appointment as minister of defense, making him one of the youngest ministers of defense in the world. Although the actions taken by His Majesty King Salman in conveying to His Royal Highness Prince Mohammed Bin Salman his appointments and new responsibilities were quite substantive, they also held great symbolism for many Saudis of younger generations. For the first time, the Kingdom signaled to the world, and most importantly to Saudis themselves, that its leaders were fully cognizant of the importance of the contributions to be made to the future of the country by its younger generation.

On September 4, 2015, at the invitation of U.S. President Barack Obama, the Custodian of the Two Holy Mosques, His Majesty King Salman Bin Abdulaziz Al Saud, along with his son, Deputy Crown Prince Mohammad Bin Salman Bin Abdulaziz Al Saud, and the Saudi ministers of foreign affairs, finance, commerce, and health, paid an official state visit to the United States and met with President Obama at the White House. The dimensions and depth of the Saudi-U.S. relationship have expanded and deepened greatly over the last 80 years. The relationship certainly continues to withstand a seemingly constant stream of threatening geopolitical storms. These official meetings, and even unofficial back channel communications between the two nations, have served in the long run to bolster and fortify the relationship between them.

The United States has been one of the most important trade and investment partners of Saudi Arabia since the creation of the modern Saudi state. The United States recognized the Kingdom of Hejaz and Nejd and its Dependencies on May 1, 1931. The name of the country was changed to the Kingdom of Saudi Arabia by decree on September 18, 1932. Diplomatic relations were established on February 4, 1940.¹

Of course, between U.S. recognition of the Kingdom in 1931 and the establishment of diplomatic relations with the Kingdom in 1940, there was a very significant occurrence inside the Kingdom ... the 1938 discovery by the Standard Oil Company of California of the first commercial oil field and its famous first productive well, "Dammam No. 7." Although it took the Kingdom 42 years to acquire complete ownership of what has become the world's largest oil company, it was during these years that the bedrock of the U.S.–Saudi bilateral relationship was formed ... commerce between the two countries.

There have been peaks and valleys in this relationship, often caused by geopolitical winds blowing throughout the Middle East that have bolstered and tested commercial relations. Less than three years after the United States established its first diplomatic presence in the Kingdom with the opening of the American Legation in Jeddah on May 1, 1942, U.S. President Franklin Roosevelt had his celebrated meeting with Saudi King Abdulaziz Al Saud aboard the USS Quincy on the Great Bitter Lake near the Suez Canal on February 14, 1945. During their visit, President Roosevelt and King Abdulaziz discussed the ending of World War II, a portion of their nations' mutual commercial interests, and from the Saudi perspective, the discouraging momentum toward the partitioning of Palestine.

Today, as the Kingdom faces regional armed conflicts, prosecutes a war in Yemen as it works to achieve a responsible peace with all parties, comes to grips with the ghastly rise of ISIS (the Islamic State of Iraq and Syria—also known as ISIL or DAESH), articulates its continual consternation over the world community's irresolution of the ever-present Palestinian-Israeli issue, the September 4, 2015, meeting in Washington between His Majesty King Salman and President Barack Obama must have been viewed as oddly reminiscent of the 1942 meeting between King Abdulaziz Al Saud and President Roosevelt on the Great Bitter Lake, or at the very least, a lamentable case of déjà vu.

The White House reported that when President Obama and His Majesty King Salman met in September 2015, they discussed a range of issues. Among a host of subjects, the White House Office of the Press Secretary reported in its press release of September 4, 2015, that the two leaders discussed, it stated:

The President noted the Kingdom's leadership role in the Arab and Islamic world. [T]he two parties affirmed the need to continue efforts to maintain security, prosperity and stability in the region and in particular to counter Iran's destabilizing activities . . . [T]he two leaders noted the on-going military cooperation between the two countries in confronting ISIL/DAESH, in working to protect the sea-lanes and in confronting piracy . . . [T]he two leaders underscored the importance of confronting terrorism and violent extremism. They expressed their continued commitment to the security cooperation between Saudi Arabia and the United States, including joint efforts to counter al-Qaeda and ISIL/DAESH. They noted the importance of their cooperation to stem the flow of foreign fighters, to counter ISIL's hateful propaganda, and to cut off terrorist financing streams . . . [O]n Yemen, the

*two parties stressed the urgent need to implement relevant United Nations Security Council resolutions, including UNSCR 2216, in order to facilitate a political solution based on the GCC Initiative and the outcomes of the National Dialogue [R]egarding the Palestinian-Israeli conflict, the two leaders underscored the enduring importance of the 2002 Arab Peace Initiative, and underlined the necessity of reaching a comprehensive, just and lasting settlement to the conflict based on two states living side-by-side in peace and security*²

Despite the thorny foreign policy matters facing the two nations, one of the most reassuring qualities of the U.S.–Saudi bilateral relationship is the ability of both nations to continue trading and investing with each other at levels that over time always trend higher. Over the 80-plus years of the relationship, there have been serious ruptures, rebalances, and repairs of the two nations’ political and strategic cooperative bonds.

I took note of one such unofficial bilateral flap on a March 2016 trip I made to the Kingdom when it seemed as though everyone had an opinion of a magazine interview with President Obama in a cover story of *The Atlantic* titled “The Obama Doctrine,” in which he seemed to many Saudis as depicting them as having benefited from America’s political and military engagements in the Middle East with marginal contributions from them at best. It seemed to upset so many that most Saudis with whom I spoke during my March 2016 visit to Riyadh viewed with high skepticism the fourth planned visit to the Kingdom by President Obama the following month. When President Obama arrived in Riyadh on April 20, 2016, he received what the world press characterized as a chilly reception. Nevertheless, photos of the president being greeted by Saudi King Salman at Al-Auja palace show a respectful and cordial reception.

Unfavorable political agitations and incidents will likely continue between the two nations with varying degrees of harm. The business relationship, however, continues to manage to maintain its remarkable strength. In recent years, a number of analysts have predicted the decline and even the outright demise of the Saudi–U.S. strategic bilateral relationship. They often point to the Kingdom’s decided shift toward the East and particularly China. Yet, in terms of trade and investment, the United States remains one of the Kingdom’s most important trading partners. Many Saudis believe the United States is the Kingdom’s most important partner for business and is unlikely to be supplanted in the near future.

When U.S. Commerce Secretary Penny Pritzker arrived in Saudi Arabia in March 2014 with a trade delegation of 21 U.S. companies just before President Obama’s visit that month to Saudi Arabia, the bilateral commercial relationship enjoyed between the two countries was at the top of the list of issues to be discussed with senior leaders.

At a luncheon in honor of Secretary Pritzker and her trade delegation to the Gulf Region, co-hosted by the U.S.–U.A.E. (United Arab Emirates), U.S.–Saudi Arabian,



Figure P.1 Joint Business Council Luncheon for The Honorable U.S. Secretary of Commerce Penny Pritzker, Washington, DC, W Hotel, February 27, 2014
 From left to right: Ambassador Patrick Theros, president and managing director of the U.S.-Qatar Business Council; H.E. Ahmad Al-Sobae, deputy chief of mission to the U.S. embassy of the State of Qatar in Washington D.C.; H.E. Adel Al-Jubier, minister of foreign affairs of the Kingdom of Saudi Arabia and at the time of this photograph Saudi Arabian ambassador to the United States; H.E. Penny Pritzker, U.S. secretary of commerce; H.E. Yousef Al-Otaiba, U.A.E. ambassador to the United States; Danny Seabright, president of the U.S.-U.A.E. Business Council; and Edward Burton, CEO and president of the U.S.-Saudi Arabian Business Council.
 Photo Credit: Courtesy of the United Arab Emirates Embassy in Washington, D.C.

and U.S.-Qatar Business Councils, held on February 27, 2014 (see Figure P.1), Secretary Pritzker remarked on her March 2014 mission itinerary to the three countries and the importance of the Saudi market by stating:

From the UAE, we will travel to Riyadh. As you know, America's bilateral ties with Saudi Arabia date back to the 1930s when U.S. companies discovered oil. In the ensuing decades, this relationship has become our anchor in the Gulf. (And we all look forward to President Obama's second visit to Saudi Arabia in just a few weeks.)

In September 2013, I spoke at the third U.S.-Saudi Business Opportunities Forum in Los Angeles—the previous two were held in

Atlanta and my hometown of Chicago. Each event had more than 1,000 businesses attending who are excited about this market. My remarks at the Los Angeles Forum centered on the historical importance of the U.S.-Saudi bilateral commercial relationship and the many trade and investment opportunities in the Kingdom in sectors such as housing, manufacturing, education, and infrastructure. There were over 300 in attendance for the L.A. Forum's first panel discussion entitled "Special Session: An Introduction to Doing Business in Saudi Arabia."³ The interest in the Saudi market attending that gathering was avid, and for good reason.



Figure P.2 USSABC Luncheon for The Honorable U.S. Ambassador to Saudi Arabia Joseph Westphal, Riyadh, Intercontinental Hotel, September 17, 2014
 From left to right: Edward Burton, USSABC president and CEO; Mubarak Al-Khafrah, chairman, National Industries Corporation (Tasnee) and chairman, Saudi Arabian Hollandi bank and current USSABC vice chairman; Honorable Joseph Westphal, U.S. ambassador to Saudi Arabia; His Excellency Tawfiq Al-Rabiah, Saudi minister of commerce and industry; Mohamed Al-Mady, president, General Organization for Military Industries Corporation and former Saudi USSABC co-chairman; Dr. Basheer Al-Ghuraydh, USSABC secretary general and executive director.
 Photo Credit: U.S.-Saudi Arabian Business Council.



Figure P.3 USSABC Welcoming Reception for incoming Saudi Co-Chairman Abdallah Jum'ah, Riyadh, Al Mashreq Hotel, March 15, 2015
 From left to right: Dr. Basheer Al-Ghuraydh; USSABC secretary general and executive director; Mohamed Al-Mady, president, General Organization for Military Industries Corporation and former Saudi USSABC co-chairman; Abdallah Jum'ah, chairman, Saudi Arabian Investment Bank and current USSABC Saudi co-chairman; Peter Robertson, former vice chairman of the board, Chevron and current USSABC U.S. co-chairman; Sheikh Abdulaziz Al-Quraishi, founding USSABC Saudi co-chairman and board member emeritus; Mubarak Al-Khafrah, chairman, National Industries Corporation (Tasnee), chairman, Saudi Arabian Hollandi bank and current USSABC vice chairman; Edward Burton, USSABC president and CEO.
 Photo Credit: U.S.-Saudi Arabian Business Council.

In 2014, the U.S. exported \$18.68 billion worth of American goods to Saudi Arabia, and in the first three months of 2015, U.S. exports to the Kingdom reached \$4.54 billion.⁴ As in the U.A.E., there are numerous opportunities for American firms to serve as partners in infrastructure projects in Saudi Arabia. The Kingdom is looking to invest \$1 trillion in current and future projects, and American firms can offer world-class expertise in project management, architectural, and engineering services. Our businesses want to participate in projects ranging from the Riyadh Metro to renewable energy initiatives to rail development. See Figures P.2 and P.3.

NOTES

1. U.S. Department of State, Office of the Historian, “Guide to the United States’ History of Recognition, Diplomatic, and Consular Relations, by Country, since 1776: Saudi Arabia,” http://history.state.gov/countries/saudi-arabia#diplomatic_relations.
2. The White House, President Barack Obama, Office of the Press Secretary, “Joint Statement on the Meeting between President Barack Obama and King Salman Bin Abd al-Aziz Al Saud,” September 9, 2015, <https://www.whitehouse.gov/the-press-office/2015/09/04/joint-statement-meeting-between-president-barack-obama-and-king-salman>.
3. U.S.-Saudi Business Opportunities Forum, Los Angeles, CA, September 16, 2013, “Special Session: An Introduction to Doing Business in Saudi Arabia,” link to panel video: <https://vimeo.com/74694009>.
4. United States Census Bureau, *Trade in Goods with Saudi Arabia*, <http://www.census.gov/foreign-trade/balance/c5170.html>.

Acknowledgments

Without the trust and mutual respect I enjoy within the Saudi and American business communities, this book would not have been written. It is with sincere appreciation and gratitude that I acknowledge the comity and collegial interaction I continue to enjoy with the many Saudi and American owners, principals, senior executives, and entrepreneurs of companies of all sizes, histories of operations, and sectors. I would also like to acknowledge the U.S.-Saudi Arabian Business Council (USSABC), its co-chairmen, Mr. Abdallah Jum'ah, USSABC Saudi co-chairman, and former chief executive officer and vice chairman of Saudi Aramco, and Mr. Peter J. Robertson, USSABC U.S. co-chairman and former vice chairman of the board of Chevron Corporation, as well as the entire USSABC board of directors. I would also like to thank the USSABC executive directors: Ms. Susanne Lendman, executive director and chief of staff in our U.S. office, and Dr. Basheer Al-Ghuraydh, secretary general and executive director of the USSABC Riyadh office and recent member of the Majlis Ash Shoura.

The U.S.-Saudi Arabian Business Council was established in December 1993 to improve the mutual knowledge and understanding between the private sectors of the United States and Saudi Arabia, and to promote bilateral trade and investment. Throughout its 20-year history, and with its office in Riyadh, our Business Council has been known as the premier U.S.-based bilateral business promotion entity working within the Saudi and American business communities, advancing the interests of its companies. Through the outstanding leadership of its co-chairmen and board of directors, and extensive market knowledge and experience of its staff, the USSABC facilitated thousands of business connections and successful business transactions between U.S. and Saudi firms.

I would like to extend a heartfelt word of thanks to Sheikh Abdulaziz Al-Quraishi, Dr. Abdulrahman Al-Zamil, chairman of the council of Saudi chambers of commerce and industry, as well as his brother, Mr. Khalid Al-Zamil, who I am proud and fortunate to have as a member of the USSABC board of directors, for the support and encouragement they have given me during this entire endeavor. They have given up some of their time to offer me advice and their thoughts on some of this book's subject matter. Sheikh Abdulaziz Al-Quraishi especially has helped with offering his suggestions and recommendations for improvements to some portions of my manuscript. Given the importance and stature of all of them in the Kingdom, their willingness to support this project has great value to its objectives. I offer a special thanks to Mr. Richard Debs, advisory director of Morgan Stanley, member of its international advisory board, and chairman of Morgan Stanley Saudi Arabia, for his invaluable encouragement to me in this project and commentary on my manuscript. And, a special thanks to Lyn Doverspike for her encouragement and support.

About the Author

Edward Burton has actively advised thousands of companies engaged in international trade and investment in markets around the world for over 35 years. He currently serves as chief executive officer and president of the U.S.-Saudi Arabian Business Council, the premier U.S.-based private-sector organization promoting trade and investment between the United States and the Saudi Kingdom. Mr. Burton has counseled hundreds of Fortune 500 companies as well as thousands of small and middle-tier firms during the course of his professional career. Having lived and worked in Saudi Arabia as an American diplomat in the U.S. embassy in Riyadh, and the U.S. consulates in Jeddah and Dhahran, Mr. Burton has a unique insider's knowledge about the country, its business community, and how business gets done in the Kingdom.

Mr. Burton is a frequent speaker at roundtables and panel discussions across the United States, Saudi Arabia, and the Gulf Cooperation Council (GCC) on Saudi Arabia's trade relations. He has had numerous television interviews and articles published by recognized industry magazines such as *Fortune*, *Offshore* magazine, *Water World*, and *Nuclear Power International*.

Mr. Burton has accumulated over 27 years of experience in trade promotion and international business development. Before joining the Business Council, Mr. Burton served as the commercial attaché at the American embassy in Riyadh, Saudi Arabia. He managed a staff of 27 officers, commercial specialists, and other local direct hire personnel serving offices in the cities of Riyadh, Jeddah, and Dhahran. He was responsible for all U.S. Foreign Commercial Service (USFCS) operations in Saudi Arabia and had oversight of all USFCS management, administrative, and fiscal matters in the U.S. embassy and consulates in the Kingdom. He also supervised USFCS operations in Manama, Bahrain, through a partnership arrangement with the U.S. embassy in Manama. Mr. Burton was also appointed directly by former U.S. Commerce Secretary Donald Evans to serve as the USFCS regional coordinator for the agency's Iraq reconstruction regional initiative.

Earlier in his career, Mr. Burton was the U.S. Department of Commerce Network Director of the U.S. Export Assistance Center (USEAC) in Philadelphia and as such had primary management responsibility for USEAC offices in seven northeast U.S. states. Before joining the U.S. department of commerce, he served former New Jersey Governor Christine Todd Whitman as the State of New Jersey's international trade director.

Mr. Burton holds a bachelor of arts degree in political science from the University of Charleston and a doctor of jurisprudence degree from the Dickinson School of Law. He practiced law in New Jersey with the law firm Cooper Levenson. He also received certified international trade and management training at the Thunderbird School of International Business and the Harvard Business School of Publishing.

Introduction

There are many, many Saudi business people whom I greatly admire, few more than Sheikh Abdulrahman Al-Jeraisy, chairman of the Jeraisy Group, one of Saudi Arabia's most well-known and accomplished businessmen. His story and rise to the Kingdom's upper echelon of the Saudi corporate community is both instructive and illustrative of where Saudi Arabia has been and where it is going.

Surely young Abdulrahman Al-Jeraisy could barely contain his sense of excitement and wonderment since the decision by his family was finally made to have him travel from his ancestral home in Raghbah to begin a young boy's life in the capital city of Riyadh with his uncle, Mohammad Bin Abdulrahman Al-Jeraisy. At the age of seven, he began the two-day journey to Riyadh by camel from Raghbah, 75 miles northwest of the capital city. The year was 1940. The trip to the city that would help define many of his personal and professional successes is one that has been made by scores of original founders, first-generation owners, and leaders of many of Saudi Arabia's most recognized family-owned businesses. The arduous journey from noble and humble villages and towns across Saudi Arabia, usually by camel or donkey in those days, but sometimes by car or truck, was one taken by many of today's corporate and government leaders whose names are instantly recognizable to those familiar with the Kingdom. So, the story of Sheikh Abdulrahman Al-Jeraisy, one of Saudi Arabia's most well-known and respected businessman, and the sights and sounds experienced during his journey to Riyadh is a notable one. It is noteworthy not only because of the compelling contrasts between modest beginnings and great achievements in business and in life over many decades for one man, but also because it is illustrative of the rapid rise of the city that young Abdulrahman walked through as a boy and the city Riyadh has become. Sheikh Abdulrahman Al-Jeraisy is one of many men in Saudi Arabia who have built some of the world's most successful family-owned businesses from scratch whose foundations have been built on dedication to Allah, family, and hard work. The captains of industry atop most of the Kingdom's family-owned businesses discussed in this book share these common values.

As he moved closer to Riyadh, young Abdulrahman and his traveling companions seemed to be elevated from the vastness of the desert landscape, wadis (valleys, ravines, or channels that are dry except in the rainy season), and the foreboding pervasiveness of barren rock mountain ranges to a hilly dominated expanse of green trees and gardens drawing closer. They passed the date farms and orchards that led to the city of Riyadh. Soon, young Abdulrahman saw the great mud wall that encircled the city. The sights and sounds of the city, the circulation of people through its narrow streets, lines of merchant kiosks, and multi level dwellings soon dominated

all that was visible. In 1940, the year of Abdulrahman's journey to Riyadh, the city had been the official capital of the Kingdom of Saudi Arabia for only eight years.

Riyadh's modern history is closely associated with two dates, 1902 and 1932. The first, 1902, was the year in which King Abdul Aziz Bin Abdul Rahman Al-Saud reclaimed the city and launched his three-decade effort to unify the tribes of the Arabian peninsula. The second, 1932, saw the establishment of the modern Kingdom of Saudi Arabia and the beginning of a new era when the city was elevated to the status of capital city of a nation, covering most of the peninsula. The three intervening decades were a period of slow but steady growth for the city. The Riyadh of 1902 was no more than a mile across. It consisted of the Masmak, the citadel that was also the seat of government, a large mosque, a spacious marketplace, and several hundred houses, all built of mud brick. The entire city was surrounded by a thick mud wall ranging as high as 25 feet. The city's famous date gardens were mainly located outside the walls. Sheikh Abdulrahman recounts the story of his youth in Riyadh that when the end came for Isha prayer, the night-time and last of the daily prayers recited by practicing Muslims, the city would shut itself for the night by closing the main city gates to those outside.

The Riyadh of the time of young Abdulrahman's arrival is not the Riyadh of today. In 1940, there were no overhead electricity transmission lines, no power stations, or state power regulator. No light bulbs were to be found in most Saudi homes, mosques, or commercial establishments. If one had looked in earnest, electricity could have been found in some of the palaces of the royal family. Electrical power generation and the mass distribution of electricity came to the Kingdom and Riyadh in 1951 with the establishment of the Kingdom's first public utility, the Riyadh Electricity Company. Responsible for building this power infrastructure were American companies Bechtel (then known as Bechtel Brothers McCone) and Thomson-Houston Electric Company (a merged entity with Societe Alsacienne de Constructions Mecaniques, which formed the French headquartered company Alsthom, today known as Alstom, which built the first gas turbine in 1951.) Following the European Union's final approval, General Electric, an American global powerhouse in the Saudi market, acquired Alstom in late 2015.

At the time of Sheikh Abdulrahman's journey to Riyadh, the capital had fewer than 30,000 inhabitants and an economy that was primarily composed of merchant and agrarian commerce and local government. Today, the city of Riyadh has 5.7 million people and a population growth rate of 4 percent per annum. Its economy is one of the most industrially diverse in the Middle East, with real estate, manufacturing, medicine and health care, the service sector, and government contributing the most to the city's gross domestic product, estimated to be more than US\$16 billion (60 billion Saudi riyals). Massive infrastructure projects are poised to transform the already cosmopolitan Arabian Gulf city into the most powerful business center in the Middle East. And the region is taking notice. Perhaps best captured in the regional business publication *The Gulf*, the magnitude of commercial activity, which included almost 3,000 projects valued at US\$18.7 billion (70.3 Saudi riyals [SR]) scheduled for implementation in the Riyadh region throughout 2014, was stated as follows:

Infrastructure projects dominate spending. Some Saudi riyals (SR) 57 billion worth of power projects comprising 10 power generation facilities, 62 power transmission projects, and 19 power distribution projects. Meanwhile, SR 823 million worth of water network schemes are being implemented. Transport networks are also being overhauled to relieve pressure on the city's choked arteries and efficiently connect the various economic clusters currently being built or in the pipeline across the city. The most eye-catching transport scheme is the \$16 billion underground metro system, construction work on which is due to start later this year. The huge project will be complemented by new roads, railways, and airport projects, the value of which will be SR24 billion in 2013/14 alone. The ADA (Ar-Riyadh Development Authority) notes that some SR 43 billion is being spent on financial and technological cities, hotels, offices, and industrial cities during this period. Arguably the most high profile of these projects is the hugely ambitious King Abdullah Financial District (KAFD), a massive real estate project whose glass tower blocks now dominate the skyline of North West Riyadh.

We will revisit Sheikh Abdulrahman Al-Jeraisy and the Jeraisy Group in Chapter 3. For now, however, let us acknowledge that the rapid rise of the Saudi capital has been at pace with the rise and modernization of the Kingdom itself. We will view more evidence of this in our first chapter.